Foundation Securities
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Foundation Alert

INDU: Analyst Briefing Takeaways

Event

- Indus Motor Company Ltd (INDU PA) held its Analyst briefing today to discuss its financial/operational performance for FY21 and outlook of the company. Following are the key takeaways of the briefing.

Impact

- Indus Motor Company Ltd (INDU PA) profitability clocked in at Rs12.8bn (EPS Rs163.2) in FY21 as compared to profit of Rs5.1bn (EPS Rs64.7) in FY20.
- Company declared annual cash dividend of Rs103.5/sh, which clocked in payout ratio to 63% in FY21.
- INDU sales increased by 2.08x YoY in FY21, driven by increase in sales by 100% YoY to 57,731 units. Toyota acquired 23% of the market share of PCs&LCVs. To highlight total market increased by 75% YoY (PC/LCVs ↑62/110% YoY).
- Management accredited improvement in sales volumes to the improving economic conditions and healthy demand generated by (1) facelift models of Corolla, Hilux and Fortuner, and (2) wider acceptance of Yaris in its debut year.
- INDU was able to sell 28,295/18,355 units of Yaris/Corolla in FY21, followed by 7,043/3,543 units of Hilux/Fortuner.
- The company does not expect any adverse effect on sales from increase in policy rate, as auto financing share of sales is on the lower end because of high market penetration in Rural. The sales mix in urban/rural is 50/50%.
- Management also shared their views on the auto industry as a free market and labeled 'not a good gesture' by the gov't to control the prices. The management is keen to pass on the high procurement cost to the customer as steel, aluminum, chemicals, and freight charges are exponentially increasing for the industry.
- The profitability was also supported by other income of Rs5.6bn (Rs 70/sh), this was majorly from increased fund position of the company, mainly due to increase in advances from customers. To highlight, the company holds cash+ST investment of Rs84bn and advances from customer and dealers of Rs51bn.
- Management showed concerns about the rapid adverse currency movement, however USD/JPY depreciated by 5.5/7.7% YoY in FY21 which proved to be fruitful in the following year.
- Management further elaborated on their plans on capital expenditure, that include USD100mn in first ever locally produced Hybrid Electric Vehicle and another USD30mn for capacity enhancement that would increase capacity by 20% over the period of next 3 years.
- The company is looking forward to clarify the gov't stance on reduction of additional custom duty on raw material and want the gov't to extend the FED reduction in Finance Act'21 to double cabin pickups as well.
- Management is optimistic regarding the global semiconductor shortage that has dissipated for near term for INDU. However, the port congestion and shortage of containers might delay freight time.
- Management is also optimistic about the upcoming AIDEP policy (2021-26), that would stimulate growth and localization in the industry.

Outlook

- INDU expansion plans would give further edge to the market penetration in the luxury crossover SUV segment. Moreover, we expect the margins to stay depressed given depreciation of rupee in the near term, but catalytic growth induced by gov't policies that would keep volumes upbeat INDU is our top pick, given its high brand value and product placement.

INDU: 4QFY21 Result Review

Rs mn	4QFY21	4QFY20	YoY	3QFY21	QoQ	FY21	FY20	YoY
Net sales	48,002	10,361	363%	51,514	-7%	179,162	86,167	108%
COGS	42,106	10,662	295%	46,768	-10%	162,508	78,716	106%
Gross Profit	**5,896**	**-301**	na	**4,746**	24%	**16,654**	**7,451**	124%
Distribution expenses	653	232	181%	394	66%	1,619	1,469	10%
Admin expenses	402	353	14%	418	-4%	1,465	1,385	6%
Other operating expenses	101	(261)	-139%	314	-68%	817	429	91%
Other income	1,686	868	94%	1,436	17%	5,579	3,205	74%
Finance costs	54	31	72%	21	154%	134	86	56%
Profit before taxation	**6,373**	**211**	**2925%**	**5,036**	27%	**18,199**	**7,287**	150%
Taxation	1,959	88	2119%	1,422	38%	5,371	2,205	144%
Profit after taxation	**4,413**	**122**	**3506%**	**3,614**	22%	**12,829**	**5,082**	152%
EPS	**56.2**	**1.6**		**46.0**		**163.2**	**64.7**	
DPS	37	7		11		104	30	
Gross Margins	12.3%	-2.9%		9.2%		9.3%	8.6%	
Net Margins	9.2%	1.2%		7.0%		7.2%	5.9%	
POR	65.0%	449.5%		23.9%		63.4%	46.4%	

Source: PSX, Company accounts, Foundation Research, Sept'21

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Ext 339

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Recommendations definitions

If

Expected return >+10%	Outperform.
Expected return from -10% to +10%	Neutral.
Expected return <-10%	Underperform.